

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 168

February 19, 2021

SUMMARY OF BILL: Requires all residential property to be valued for tax purposes on the basis of the most recent sale, lease, mortgage, or other transfer of an interest in the property for which unrelated parties with competing interests agreed to a valuation of the property. Deletes the requirement that property utilized as a residential dwelling, but zoned for commercial use, be taxed as residential property.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – \$916,000/FY20-21

Increase Local Expenditures – Exceeds \$2,475,000/FY20-21*

Other Fiscal Impact - A precise fiscal impact to local government property tax revenue beginning in FY21-22 cannot reasonably be determined due to multiple unknown factors.

Assumptions relative to state government:

- The proposed language is effective upon becoming law and will apply to assessments conducted by January 1, 2022. The Comptroller of the Treasury (COT) will have to utilize consulting firms in order to comply with the proposed language in time for upcoming property tax assessments.
- According to the COT, changing the methodology for determining the value of residential property will result in the need for:
 - A new appraisal methodology to be developed and standardized;
 - Updating appraisal manuals and materials with the new methodology for training certification programs; and
 - The development and implementation of a new methodology for the state Computer Assisted Mass Appraisal (CAMA) system, IMPACT, which is used by 84 counties.
- The COT will utilize a consulting service to develop a new appraisal methodology. It is estimated the consultant will require 160 hours, at an average rate of \$325 per hour, for such development; resulting in an increase in state expenditures of \$52,000 (160 x \$325), occurring in FY20-21.

- In order to rewrite appraisal manuals and materials used to train Assessors of Property prior to January 1, 2022, the consulting firm require 320 hours, at an average rate of \$325 per hour, for an increase in state expenditures of \$104,000 (320 x \$325).
- The COT will use their current IMPACT vender, Tyler Technologies to develop and implement the new methodology. The vendor will assess an average rate of \$190 per hour and will require approximately 4,000 hours to develop the computer changes and implement the new methodology. The increase in state expenditures is estimated to be \$760,000 (4,000 x \$190).
- The total one-time increase in state expenditures is estimated to be \$916,000 (\$52,000 + \$104,000 + \$760,000) in FY20-21.

Assumptions relative to local government:

- There are 11 counties who do not use the COT's IMPACT system: Bradley, Chester, Davidson, Hamilton, Hickman, Knox, Montgomery, Rutherford, Shelby, Sumner, and Williamson. These counties contract independently with one of three vendors.
- Each of the 11 counties will incur expenditures to develop new appraisal methodology software, test and implement the new software, update current educational programs, train staff, update websites, and print new materials. While increases in expenditures will vary from county to county, these expenditures are reasonably estimated to exceed \$225,000 per county.
- The total one-time, mandatory increase in local expenditures is estimated to exceed \$2,475,000 (\$225,000 x 11) in FY20-21.

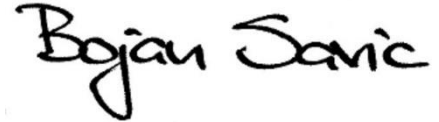
Assumptions relative to property tax revenue:

- Pursuant to Tenn. Code. Ann. § 67-5-801, residential property is assessed at 25 percent of its value and industrial and commercial property is assessed at 40 percent of its value.
- Deleting the requirement that property utilized as a residential dwelling, but zoned for commercial use be taxed as residential property will result in such properties being assessed at a higher percentage of its value.
- Changing the methodology utilized for determining the value of residential property for assessment may result in instances where properties are valued at a higher rate than they would be in the absence of this legislation, and in such instances, property tax revenue could be increased. However, such changes may also result in instances where properties are valued at a lower rate and property tax revenue could be decreased.
- Due to multiple unknown variables such as the extent of any changes in individual residential property assessments, the extent of properties impacted, and the total number of residential dwellings who are currently zoned as commercial, a precise fiscal impact to local government revenues cannot be reasonably determined.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Bojan Savic". The signature is written in a cursive style with a large, stylized 'B' and 'S'.

Bojan Savic, Interim Executive Director

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